

VALLEY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Officials	4
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-17
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Position	A 19
Statement of Activities	B 20
Governmental Fund Financial Statements:	
Balance Sheet	C 21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D 22
Statement of Revenues, Expenditures and Changes in Fund Balances	E 23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 24
Proprietary Fund Financial Statements:	
Statement of Net Position	G 25
Statement of Revenues, Expenses and Changes in Fund Net Position	H 26
Statement of Cash Flows	I 27
Fiduciary Fund Financial Statement:	
Statement of Fiduciary Net Position	J 28
Notes to Financial Statements	29-45
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	47
Notes to Required Supplementary Information - Budgetary Reporting	48
Schedule of Funding Progress for the Retiree Health Plan	49

TABLE OF CONTENTS (continued)

Supplementary Information:	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	53
Capital Projects Accounts:		
Combining Balance Sheet	4	54
Combining Schedule of Revenues, Expenditures and Changes in Balances	5	55
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Account	6	56
Schedule of Revenues by Source and Expenditures By Function - All Governmental Funds	7	57
Schedule of Expenditures of Federal Awards	8	58
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		59-61
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133		62-64
Schedule of Findings and Questioned Costs		65-68

VALLEY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION (Before September 2013 Election)

Mark Howard	President	2013
Dawn Daughton	Vice President	2015
Tim Orr	Board Member	2013
Stacy Cummings	Board Member	2015
Eileen Schlawn	Board Member	2015

(After September 2013 Election)

Mark Howard	President	2017
Dawn Daughton	Vice President	2015
Stacy Cummings	Board Member	2015
Eileen Schlawn	Board Member	2015
Debra Loftsgard	Board Member	2017

SCHOOL OFFICIALS

Duane Willhite	Superintendent	2014
Melissa Fettkether	District Treasurer and Business Manager	Indefinite
Carole Nading	District Secretary	Indefinite
Steven A. Wiedner	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Valley Community School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion,. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 17 and 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements.

The supplementary information included in Schedule 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements taken as a whole.

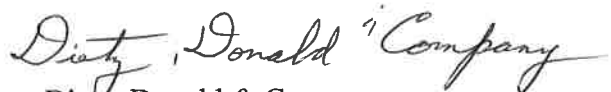
The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2014 on our consideration of Valley Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Valley Community School District's internal control over financial reporting and compliance.

Elkader, Iowa

December 17, 2014


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

Valley Community School District

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Elgin, Iowa 52141

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Duane Willhite, Superintendent

Betsy Nefzger, Instructional Principal and Curriculum Director

Sharon Rich, School Administrator Manager

Valuing the Past...

.....Looking to the Future!

MANAGEMENT'S DISCUSSION AND ANALYSIS

Valley Community School District provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial statements is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$ 5,005,638 in fiscal year 2013 to \$ 5,572,923 in fiscal year 2014, while General Fund expenditures increased from \$ 4,458,167 to \$ 5,288,436. The District's General Fund balance increased from \$ 761,717 at the end of fiscal year 2013 to \$ 1,046,204 at the end of fiscal year 2014, a 37.3% increase.
- The fiscal year 2014 General Fund revenue increase was attributable to increases in tuition due to the implementation of whole grade sharing. The increase in expenditures was due to increases in expenditures for instruction. The increase in General Fund balance was \$ 284,487 in fiscal 2014 compared to an increase of \$ 547,471 in fiscal year 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Valley Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining financial statements provide information about activities for which Valley Community School District acts solely as an agent for the benefit of those outside the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses were accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

1. Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

2. Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund is the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

3. Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. The District currently has one Fiduciary Fund, an Agency Fund. Agency Funds are funds through which the District administers and accounts for assets

that belong to the Northeast Iowa Health Occupation Consortium.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

Condensed Statement of Net Position (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30		June 30		June 30		June 30
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 5,208	5,218	31	27	5,239	5,245	-0.1%
Capital assets	4,240	3,703	9	9	4,249	3,712	14.5%
Total assets	9,448	8,921	40	36	9,488	8,957	5.9%
Long-term liabilities	1,427	2,017	0	0	1,427	2,017	-29.3%
Other liabilities	997	618	21	18	1,018	636	60.1%
Total liabilities	2,424	2,635	21	18	2,445	2,653	-7.8%
Deferred inflows of resources	1,829	1,675	0	0	1,829	1,675	9.2%
Net position:							
Invested in capital assets, net of related debt	3,759	2,868	9	9	3,768	2,877	31.0%
Restricted	878	1,500	0	0	878	1,500	-41.5%
Unrestricted	558	243	10	9	568	252	125.4%
Total net position	\$ 5,195	4,611	19	18	5,214	4,629	12.6%

The District's total net position increased 12.6%, or approximately \$585,000 from the prior year. The largest portion of the District's net position is invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$ 6222,000 or 41.5%.

Unrestricted net position - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$ 325,000 or 133.7%. This increase in unrestricted net position was a result of an increase in the General Fund balance of approximately \$ 284,000.

The following table shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Changes in Net Position (Expressed in Thousands)								
		Governmental Activities		Business Type Activities		Total District		Total Change
		2014	2013	2014	2013	2014	2013	2013-14
Revenues:								
Program revenues:								
Charges for service	\$	1,389	476	120	124	1,509	600	151.5%
Operating grants and contributions		741	754	123	111	864	865	-0.1%
Capital grants and Contributions		302	181	0	0	302	181	66.9%
General revenues:								
Property tax		1,630	1,928	0	0	1,630	1,928	-15.5%
Statewide sales, services and use tax		361	378	0	0	361	378	-4.5%
Income tax surtax		138	113	0	0	138	113	22.1%
Unrestricted state grants		1,899	1,968	0	0	1,899	1,968	-3.5%
Unrestricted investment Earnings		14	22	0	0	14	22	-36.4%
Other		19	29	0	1	19	30	-36.7%
Total revenues		6,493	5,849	243	236	6,736	6,085	10.7%

Program expenses:

Governmental activities:

Instruction	4,047	3,466	0	0	4,047	3,466	16.8%
Support services	1,530	1,479	0	0	1,530	1,479	3.4%
Non-instructional programs	2	3	242	243	244	246	-0.8%
Other expenses	330	321	0	0	330	321	2.8%

Total expenses	5,909	5,269	242	243	6,151	5,512	11.6%
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Change in net position	\$ 584	580	1	(7)	585	573	2.1%
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In fiscal year 2014, property tax and unrestricted state grants accounted for 54.4% of governmental activities revenue while charges for service and operating grants and contributions accounted for 100% of business type activities revenue.

The District's total revenues were approximately \$ 6.74 million of which approximately \$ 6.49 million was for governmental activities and approximately \$ 243,000 was for business type activities.

As shown above, the District as a whole experienced a 10.7% increase in revenues and an 11.6% increase in expenses. Charges for service increased approximately \$ 913,000 to fund the increase in expenses. The increase in revenues and expenses is related to the implementation of the whole grade sharing agreement.

Governmental Activities

Revenues for governmental activities were \$ 6,492,908 and expenses were \$ 5,909,252 for the year ended June 30, 2014. In a difficult budget year due to the implementation of whole grade sharing, the District was able to match the prior year's positive change in net position.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
			Change			Change
	2014	2013	2013-14	2014	2013	2013-14
Instruction	\$ 4,047	3,466	16.8%	\$ 2,213	2,515	-12.0%
Support services	1,530	1,479	3.4%	1,418	1,380	2.8%
Non-instructional	2	3	-33.3%	2	3	-33.3%

Other expenses	330	321	2.8%	(155)	(40)	-287.5%
Total	\$ 5,909	5,269	12.1%	\$ 3,478	3,858	-9.8%

For the year ended June 30, 2014:

The cost financed by users of the District's programs was \$ 1,388,573.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 1,042,746.

The net cost of governmental activities was financed with \$ 2,129,008 in property and other taxes and \$ 1,899,402 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2014 were \$ 242,962, representing a 3.1% increase from the prior year, while expenses totaled \$ 241,545, an 0.5% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 2,384,668, less than last year's ending fund balances of \$ 2,926,867. The primary reason for the decrease was the District retiring \$ 702,707 of long-term debt.

Governmental Fund Highlights

The General Fund balance increased from \$ 761,717 to \$ 1,046,204, primarily due to implementation of whole grade sharing.

The Capital Projects Fund balance decreased \$ 600,402 from \$ 1,831,930 in fiscal year 2013 to \$ 1,231,528 in fiscal year 2014, primarily due to the District retiring long-term debt.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund increased 3.1% to \$ 242,962 while expenses decreased 0.5% to \$ 241,545. The Nutrition Fund's increase in net position for fiscal year 2014 was \$ 1,417 bringing its net position to \$ 19,350.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the “certified budget.” In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its agency fund. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District’s certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

Over the course of the year, Valley Community School District amended its budget one time to reflect additional revenue and expenditures associated with the implementation of whole grade sharing.

The District’s revenues were \$ 595,788 more than budgeted revenues, primarily due to the District receiving tuition payments due to the implementation of whole grade sharing.

Total expenditures were \$ 987,137 less than budgeted, due primarily to the District’s budget for the General Fund. It is the District’s practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District’s certified budget should always exceed actual expenditures for the year. In spite of the District’s budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the District. The maximum authorized budget is the total “spending authority” in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash.” It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unassigned General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested approximately \$ 4.25 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. **(See following chart.)** More detailed information about capital assets is available in

Note 5 to the financial statements. Depreciation expense for the year was \$ 306,370.

The original cost of the District's capital assets was approximately \$ 7.62 million. Governmental activities accounted for approximately \$ 7.54 million with the remainder of approximately \$ 0.08 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. Total cost for the safe room was \$ 890,987, of which \$ 621,569 was incurred during fiscal year 2014.

Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2013-14
Land	\$ 33	33	-	-	33	33	0.0%
Construction in progress	27	269	-	-	27	269	-90.0%
Site improvements	108	118	-	-	108	118	-8.5%
Buildings	3,786	3,029	-	-	3,786	3,029	25.0%
Furniture and equipment	285	254	9	9	294	263	11.8%
Total	\$ 4,239	3,703	9	9	4,248	3,712	14.4%

Long-Term Debt

At June 30, 2014, the District had \$ 1,106,968 in long-term debt outstanding. This represents a decrease of approximately 34% from last year. **(See following chart.)**

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$ 5.6 million.

Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total District		Total Change
	June 30,		June 30,
	2014	2013	2013-14
Revenue bonds	\$ 0	325	-100.0%
Capital loan notes	1,000	1,340	-25.4%

Capital leases	107	0	0.0%
Totals	\$ 1,107	1,665	-33.5%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances which could significantly affect its financial health in the future:

- The District has entered into a whole grade sharing agreement with the North Fayette Community School District effective July 1, 2013 and shall terminate June 30, 2018 unless terminated sooner by majority vote of either Board of Education, extended longer by majority vote of either Board of Education, or terminated by operation of law. During the term of this agreement, each district shall maintain its own Pre-kindergarten through sixth grade. Grades seven and eight from both school districts will be located in the Valley Community School facility, while grades nine through twelve from both school districts will be located in the North Fayette Community High School facility. Both districts agree that arrangements for Special Education students will be made separately and bill back to the resident district as actual costs.
- Taxable valuations increased approximately 4.1%. However, because of a 2.0% reduction in tax rates, property tax revenues are budgeted to only increase 2.1% or approximately \$ 35,000.
- The District expects the downward trend in enrollment to level off and foundation aid is actually budgeted to increase approximately \$ 195,000.
- Taking all of the above into account, ending fund balance is budgeted to decrease approximately \$ 533,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Fettkether, Business Manager/District Treasurer.

BASIC FINANCIAL STATEMENTS

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
Year Ended June 30, 2014

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash, cash equivalents and pooled investments	\$ 2,483,397	16,431	2,499,828
Receivables:			
Property tax:			
Delinquent	32,063	-	32,063
Succeeding year	1,679,015	-	1,679,015
Accounts	14	447	461
Due from other governments	1,013,714	-	1,013,714
Inventories	-	14,410	14,410
Capital assets, net of accumulated depreciation	4,239,356	8,900	4,248,256
TOTAL ASSETS	9,447,559	40,188	9,487,747
LIABILITIES			
Accounts payable	16,144	-	16,144
Salaries and benefits payable	424,159	16,575	440,734
Due to other governments	553,849	-	553,849
Unearned revenue	-	4,263	4,263
Accrued interest payable	3,049	-	3,049
Long-term liabilities:			
Portion due within one year:			
Capital lease obligation	34,659	-	34,659
Compensated absences	6,164	-	6,164
Early retirement	65,922	-	65,922
Portion due after one year:			
Capital lease obligation	72,309	-	72,309
Notes	1,000,000	-	1,000,000
Early retirement	93,667	-	93,667
Net OPEB liability	153,682	-	153,682
TOTAL LIABILITIES	2,423,604	20,838	2,444,442
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	1,679,015	-	1,679,015
Unavailable income tax surtax revenue	150,368	-	150,368
TOTAL DEFERRED INFLOWS OF RESOURCES	1,829,383	-	1,829,383
NET POSITION			
Net investment in capital assets	3,759,128	8,900	3,768,028
Restricted for:			
Categorical funding	169,426	-	169,426
Debt service	436,749	-	436,749
Management levy purposes	66,515	-	66,515
Student activities	40,421	-	40,421
Physical plant and equipment	164,990	-	164,990
Unrestricted	557,343	10,450	567,793
TOTAL NET POSITION	\$ 5,194,572	19,350	5,213,922

See notes to financial statements.

Exhibit B

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net Expense (Revenue) and Changes in Net Position		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Instruction:							
Regular	\$ 2,694,559	944,807	301,674	-	(1,448,078)	-	(1,448,078)
Special	1,193,483	340,736	196,424	-	(656,323)	-	(656,323)
Other	159,453	36,314	14,424	-	(108,715)	-	(108,715)
	4,047,495	1,321,857	512,522	-	(2,213,116)	-	(2,213,116)
Support services:							
Student	121,331	-	14,177	-	(107,154)	-	(107,154)
Instructional staff	273,359	63,254	30,942	-	(179,163)	-	(179,163)
Administration	441,958	22	-	-	(441,936)	-	(441,936)
Plant operation and maintenance	429,171	-	-	-	(429,171)	-	(429,171)
Transportation	263,716	3,440	-	-	(260,276)	-	(260,276)
	1,529,535	66,716	45,119	-	(1,417,700)	-	(1,417,700)
	2,372	-	-	-	(2,372)	-	(2,372)
Non-instructional programs							
Other expenditures:							
Facilities acquisition	-	-	-	302,154	302,154	-	302,154
Long-term debt interest	3,324	-	-	-	(3,324)	-	(3,324)
ARA flowthrough	182,951	-	182,951	-	-	-	-
Depreciation (unallocated)	143,575	-	-	302,154	(143,575)	-	(143,575)
	329,850	-	182,951	302,154	155,255	-	155,255
	5,909,252	1,388,573	740,592	302,154	(3,477,933)	-	(3,477,933)
Total governmental activities							
Business type activities							
Support services:	2	-	-	-	-	(2)	(2)
Administration							
Non-instructional programs:							
Food service operations	241,543	120,212	122,383	-	-	1,052	1,052
Total business type activities	241,543	120,212	122,383	-	-	1,050	1,050
TOTAL	\$ 6,150,797	1,508,785	862,975	302,154	(3,477,933)	1,050	(3,476,883)
GENERAL REVENUES							
Property taxes levied for:							
General purposes							
Capital outlay							
Statewide sales, service and use tax							
Income tax surtax							
Unrestricted state grants							
Unrestricted investment earnings							
Other							
Total general revenues							
Changes in net position							
Net position beginning of year							
Net position end of year							
					\$ 5,194,572	19,350	5,213,922

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash, cash equivalents and pooled investments	\$ 1,320,018	1,057,980	105,399	2,483,397
Receivables:				
Property tax:				
Delinquent	28,494	1,847	1,722	32,063
Succeeding year	1,355,700	93,315	230,000	1,679,015
Accounts	-	-	14	14
Due from other funds	-	44,490	-	44,490
Due from other governments	822,624	189,454	1,636	1,013,714
TOTAL ASSETS	\$ 3,526,836	1,387,086	338,771	5,252,693
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,454	5,855	1,835	16,144
Salaries and benefits payable	424,159	-	-	424,159
Due to other governments	553,849	-	-	553,849
Due to other funds	44,490	-	-	44,490
Total liabilities	1,030,952	5,855	1,835	1,038,642
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	1,355,700	93,315	230,000	1,679,015
Income tax surtax receivable	93,980	56,388	-	150,368
Total deferred inflows of resources	1,449,680	149,703	230,000	1,829,383
Fund balances:				
Restricted for:				
Categorical funding	169,426	-	-	169,426
Debt service	-	436,749	-	436,749
Management levy purposes	-	-	66,515	66,515
Student activities	-	-	40,421	40,421
School infrastructure	-	629,789	-	629,789
Physical plant and equipment	-	164,990	-	164,990
Assigned for:				
Pepsi grant	6,648	-	-	6,648
Spell-a-thon	17,006	-	-	17,006
Food and fitness	694	-	-	694
Green schools	6,539	-	-	6,539
Unassigned	845,891	-	-	845,891
Total fund balances	1,046,204	1,231,528	106,936	2,384,668
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,526,836	1,387,086	338,771	5,252,693

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET -
 GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 June 30, 2014

Total fund balances of governmental funds (page 21)	\$ 2,384,668
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,239,356
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.	(3,049)
Long-term liabilities, including notes payable, capital leases payable, compensated absences payable, early retirement payable and other post employment retirement benefits payable are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(1,426,403)</u>
Net position of governmental activities (page 19)	<u><u>\$ 5,194,572</u></u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 1,561,992	479,690	87,325	2,129,007
Tuition	989,807	-	-	989,807
Other	345,393	12,094	38,594	396,081
State sources	2,487,379	35,615	61	2,523,055
Federal sources	188,352	266,606	-	454,958
Total revenues	5,572,923	794,005	125,980	6,492,908
Expenditures:				
Current:				
Instruction:				
Regular	2,507,685	137,561	77,085	2,722,331
Special	1,186,284	-	-	1,186,284
Other	83,920	-	78,848	162,768
	3,777,889	137,561	155,933	4,071,383
Support services:				
Student	118,803	-	1,412	120,215
Instructional staff	262,097	-	1,937	264,034
Administration	421,148	-	39,960	461,108
Plant operation and maintenance	357,837	73,267	34,038	465,142
Transportation	166,711	81,529	10,105	258,345
	1,326,596	154,796	87,452	1,568,844
Non-instructional programs	1,000	-	1,372	2,372
Other expenditures:				
Facilities acquisition	-	648,993	-	648,993
Long-term debt:				
Principal	-	-	702,707	702,707
Interest and fiscal charges	-	10	2,522	2,532
AEA flowthrough	182,951	-	-	182,951
	182,951	649,003	705,229	1,537,183
Total expenditures	5,288,436	941,360	949,986	7,179,782
Excess (deficiency) of revenues over (under) expenditures	284,487	(147,355)	(824,006)	(686,874)
Other financing sources (uses):				
Capital lease proceeds	-	144,675	-	144,675
Operating transfers in	-	-	597,722	597,722
Operating transfers out	-	(597,722)	-	(597,722)
Total other financing sources (uses)	-	(453,047)	597,722	144,675
Change in fund balances	284,487	(600,402)	(226,284)	(542,199)
Fund balances beginning of year	761,717	1,831,930	333,220	2,926,867
Fund balances end of year	\$ 1,046,204	1,231,528	106,936	2,384,668

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2014

Change in fund balances-total governmental funds (page 23) \$ (542,199)

Amounts reported for governmental activities in the
 Statement of Activities are different because:

Capital outlays to purchase or build capital assets
 are reported in governmental funds as expenditures.
 However, those costs are not reported in the Statement
 of Activities and are allocated over their estimated
 useful lives as depreciation/amortization expense in the
 Statement of Activities. Capital outlay expenditures
 exceeded depreciation/amortization expense in the current
 year, as follows:

Expenditures for capital assets	\$ 840,564	
Depreciation expense	<u>(304,230)</u>	536,334

Proceeds from issuing long-term liabilities provide
 current financial resources to governmental funds, but
 issuing debt increases long-term liabilities in the
 Statement of Net Position. Repayment of long-term
 liabilities is an expenditure in the governmental funds,
 but the repayment reduces long-term liabilities in the
 Statement of Net Position. Current year repayments
 exceeded issuances as follows:

Issued	(144,675)	
Repaid	<u>702,707</u>	558,032

Interest on long-term debt in the Statement of Activities
 differs from the amount reported in the governmental funds
 because interest is recorded as an expenditure in the
 governmental funds when due. In the Statement of Activities,
 interest expense is recognized as the interest accrues,
 regardless of when it is due. (792)

Some expenses reported in the Statement of Activities do not
 require the use of current financial resources and, therefore,
 are not reported as expenditures in the governmental funds,
 as follows:

Early retirement	64,035	
Compensated absences	(366)	
Other postemployment benefits	<u>(31,388)</u>	<u>32,281</u>

Change in net position of governmental activities (page 20) \$ 583,656

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	<u>Enterprise, School Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 16,431
Accounts receivable	447
Inventories	<u>14,410</u>
Total current inventories	31,288
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>8,900</u>
TOTAL ASSETS	<u><u>\$ 40,188</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 16,575
Unearned revenue	<u>4,263</u>
TOTAL LIABILITIES	<u>20,838</u>
NET POSITION	
Investment in capital assets	8,900
Unrestricted	<u>10,450</u>
TOTAL NET POSITION	<u><u>\$ 19,350</u></u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2014

	<u>Enterprise, School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 120,212
Other	298
Total operating revenues	<u>120,510</u>
Operating expenses:	
Support services:	
Administration	<u>2</u>
Non-instructional programs:	
Food service operations:	
Salaries	96,184
Benefits	36,046
Purchased services	660
Supplies	106,513
Depreciation	<u>2,140</u>
	<u>241,543</u>
Total operating expenses	<u>241,545</u>
Operating loss	<u>(121,035)</u>
Non-operating revenues:	
State sources	1,828
Federal sources	120,555
Interest income	<u>69</u>
Total non-operating revenue	<u>122,452</u>
Increase in net position	1,417
Net position beginning of year	<u>17,933</u>
Net position end of year	<u>\$ 19,350</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2014

	Enterprise, School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 123,249
Cash paid to employees for services	(130,943)
Cash paid to suppliers for goods or services	(85,353)
Net cash used by operating activities	(93,047)
Cash flows from non-capital financing activities:	
State grants received	1,828
Federal grants received	98,981
Net cash provided by non-capital financing activities	100,809
Cash flows from capital and related financing activities	
Acquisition of capital assets	(1,750)
Cash flows from investing activities	
Interest on investments	69
Net increase in cash and pooled investments	6,081
Cash and pooled investments beginning of year	10,350
Cash and pooled investments end of year	\$ 16,431
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(121,035)
Adjustments to reconcile operating loss to net cash used by operating activities	
Commodities used	21,574
Depreciation	2,140
Increase in accounts receivable	(214)
Decrease in inventories	2,168
Decrease in accounts payable	(1,920)
Increase in salaries and benefits payable	1,287
Increase in unearned revenue	2,953
Net cash used by operating activities	\$ (93,047)

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	<u>Agency</u>
ASSETS	
Cash	\$ 246
LIABILITIES	
Accounts payable	<u>246</u>
NET POSITION	<u>\$ -</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa. The District has entered into a whole grade sharing agreement with the North Fayette Community School District. Under the terms of this agreement, each District operates its own public school for children in grades pre-kindergarten through six. Valley Community School District provides the facility for both districts for grades seven and eight. North Fayette Community School District provides the facility for both districts grades for nine through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties and the cities and agricultural areas of the North Fayette Community School District. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Valley Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District had no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest restricted to

meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the District as an agent for other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Boards of Supervisors in April 2013.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Year)</u>
Buildings	20-50
Improvements other than buildings	20
Furniture and equipment	3-12

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Unearned Revenue - Unearned revenue in the business type activities column in the government wide Statement of Net Position and in the proprietary fund financial statements consists of lunch fees collected by the District, but not used by the consumer.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Board of Education intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the non-instructional

programs function.

(2) Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$ 929,690 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAm by Standard & Poor's Financial Services.

Restricted Cash - At June 30, 2014, the Bank of America held \$ 436,749 in escrow for retirement of QZAB bonds (see Note 6).

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	<u>\$ 44,490</u>

The General Fund is repaying the Capital Projects Fund for sales taxes that were initially recorded in the General Fund.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 597,722</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,907	0	0	32,907
Construction in progress	269,418	27,423	269,418	27,423
Total capital assets not being Depreciated	302,325	27,423	269,418	60,330
Capital assets being depreciated:				
Buildings	4,974,861	890,987	0	5,865,848
Site improvements	199,536	0	0	199,536
Furniture and equipment	1,221,945	191,572	0	1,413,517
Total capital assets being Depreciated	6,396,342	1,082,559	0	7,478,901
Less accumulated depreciation for:				
Buildings	1,945,813	134,158	0	2,079,971
Site improvements	82,086	9,417	0	91,503
Furniture and equipment	967,746	160,655	0	1,128,401
Total accumulated depreciation	2,995,645	304,230	0	3,299,875
Total capital assets being Depreciated, net	3,400,697	778,329	0	4,179,026
Governmental activities Capital assets, net	\$ 3,703,022	805,752	269,418	4,239,356
Business type activities:				
Furniture and equipment	\$ 77,581	1,750	0	79,331
Less accumulated depreciation	68,291	2,140	0	70,431
Business type activities Capital assets, net	\$ 9,290	(390)	0	8,900

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 132,705
Other	1,065

Support services:

Instructional staff	6,408
Plant operation and maintenance	3,615
Transportation	16,862

Unallocated 143,575

Total depreciation expense - governmental activities \$ 304,230

Business type activities:

Food service operations \$ 2,140

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30 2014 are summarized below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 325,000	0	325,000	0	0
Notes Payable	1,340,000	0	340,000	1,000,000	0
Capital Leases	0	144,675	37,707	106,968	34,659
Compensated Absences	5,797	6,164	5,797	6,164	6,164
Early Retirement	223,625	0	64,036	159,589	65,922
Net OPEB Liability	122,294	31,388	0	153,682	0
Total	<u>\$ 2,016,716</u>	<u>182,227</u>	<u>772,540</u>	<u>1,426,403</u>	<u>106,745</u>

Notes Payable

During the year ended June 30, 2009, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Statewide Sales, Services and Use Tax Fund. On February 12 of each year commencing February 12, 2010, there shall be deposited from the Statewide Sales, Services and Use Tax Fund to the Escrow Fund \$ 84,400 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity February 12, 2019. In any year in which

taxable valuations within the District are of an amount that the tax collections will be less than \$ 84,400, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation. At June 30, 2014, the escrow account balance was \$ 436,749.

During the year ended June 30, 2010, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the PPEL Fund. On August 26 of each year commencing August 26, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 15,600 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity August 26, 2019. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 15,600, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

Detail of the District's indebtedness under these agreements in effect at June 30, 2014 is as follows:

Year Ending June 30,	February 12, 2009		August 26, 2009		Total
	Principal	Interest	Principal	Interest	
2019	\$ 844,000	0	0	0	844,000
2020	0	0	156,000	0	156,000
Total	\$ 844,000	0	156,000	0	1,000,000

Capital Lease

The District entered into a lease-purchase agreement in connection with the acquisition of computer equipment. Detail of the District's indebtedness under this agreement at June 30, 2014 is as follows:

Year Ending June 30,	July 1, 2013 @ 2.85%	
	Principal	Interest
2015	\$ 34,659	3,048
2016	35,647	2,060
2017	36,662	1,045
Total	\$ 106,968	6,153

Early Retirement

In December, 2011, the District approved a voluntary early retirement plan for licensed employees. The plan was offered to employees until February 1, 2012. Eligible employees had to have completed ten (10) years of contracted service in the Valley Community School District, have reached age 55 and be at least half time to qualify for early retirement. Electing employees will receive \$ 30,000 in accordance with one of the two following incentives: (a) a lump sum placed in a 403(b) account, or (b) single insurance coverage paid monthly at the health insurance premium rate up to \$ 30,000.

At June 30, 2014, the District had obligations to one participant under the plan with a total liability of \$ 17,593. Actual early retirement expenditures under this plan were \$ 6,608 for the fiscal year ended June 30, 2014.

In November, 2012, the District approved a voluntary early retirement plan for certified employees. The plan was offered to employees until January 4, 2013. Eligible employees had to have completed ten (10) years of contracted service in the Valley Community School District, have reached at least age 55 on or before June 30, 2013, and be at least half time to qualify for early retirement. Electing employees will receive 80% of the employee's current (2012-2013) salary in accordance with one of the two following incentives: (a) payments into a 403(b) account in equal amounts over three (3) years, or (b) single insurance coverage paid monthly at the health insurance premium of the year of retirement. The certified employee is responsible for any increase in premium costs and for dependent insurance. If the employee indicates on the application form that the insurance coverage incentive will cease when the employee qualifies for Medicare or secures other employment in which the employer provides coverage, any remaining balance will be paid out in cash.

At June 30, 2014, the District had obligations to four participants under the plan with a total liability of \$ 141,933. Actual early retirement expenditures under this plan were \$ 58,428 for the fiscal year ended June 30, 2014.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50603-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Contributions requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$ 231,469, \$ 243,284, and \$ 246,480, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 63 active and 3 retired members in the plan. Participants must be age 55 or older at retirements.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 41,623
Interest on net OPEB obligation	3,057
Adjustment to annual required contribution	<u>(9,256)</u>
Annual OPEB cost	35,424
Contributions made	<u>(4,036)</u>
Increase in net OPEB obligation	31,388
Net OPEB obligation beginning of year	<u>122,294</u>
Net OPEB obligation end of year	<u><u>\$ 153,682</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the

actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$ 4,036 to the medical plan. Plan members eligible for benefits contributed \$ 65,036 or 94% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 36,180	10.7%	\$ 91,514
June 30, 2013	37,643	18.2	122,294
June 30, 2014	35,424	11.4	153,682

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$ 319,242, with no actuarial accrued value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 319,242. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$ 2.319 million and the ratio of the UAAL to covered payroll was 13.8%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual and ultimate medical trend rates are 6%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$ 554 per month for retirees less than age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on a closed group basis over 30 years.

(9) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 182,951 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Lease Commitments

The District has various leases for equipment which are classified as operating leases. Rent expenses for all operating leases for the year ended June 30, 2014 totaled \$ 89,427.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2015	\$ 78,100
2016	20,800

(12) Whole Grade Sharing Arrangement

The District has entered into a whole grade sharing agreement with the North Fayette Community School District effective July 1, 2013 and shall terminate on June 30, 2018 unless: terminated by majority vote of either District's Board of Education, extended longer by majority vote of each District's Board of Education, or termination by operation of law.

During the term of this agreement, each District shall maintain its own Pre-kindergarten through sixth grade. Grades seven and eight from both school districts will be located in the Valley Community School District facility. Grades nine, ten, eleven and twelve from both school districts will be located in the North Fayette Community School District facility. Both districts agree that arrangements for Special Education students will be made separately and billed back to the resident district as actual costs.

For the first two years of the agreement the Districts will share the actual cost of salaries added to each district for Whole Grade Sharing through the following:

- A. Determine new certified salary costs to each district generated by whole grade sharing.
- B. New salary and benefit costs in both districts will be prorated. Proration for each district will be calculated from the student population at the middle school or the high school as determined each semester on the first Monday of October and third Friday of February. The middle school/high school proration will be determined by dividing the individual district's population at the middle school or high school by the total enrollment of the middle school/high school respective population.
- C. Projected costs to be estimated for budgeting purposes. Actual costs to be paid August 15.

(13) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Gifted and talented	\$ 9,135
Returning dropout and dropout prevention program	1,490
Year 2+ Preschool Grant	60,396
Mentoring program	2,386
Early Intervention Block Grant	29,832
Early Literacy	14,936
Model Core Curriculum	25,497
Educator quality, professional development	16,019
Market factor	3,206
TLC planning	<u>6,529</u>
Total	<u>\$ 169,426</u>

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's share of the employee pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES-
BUDGET AND ACTUAL-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2014

	Governmental Funds	Proprietary Fund	Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual	Actual	Actual	Original	Final	
Revenues:						
Local sources	\$ 3,514,895	120,579	3,635,474	2,732,710	2,732,710	902,764
State sources	2,523,055	1,828	2,524,883	2,397,972	2,397,972	126,911
Federal sources	454,958	120,555	575,513	864,400	864,400	(288,887)
Total revenues	6,492,908	242,962	6,735,870	5,995,082	5,995,082	740,788
Expenditures/Expenses:						
Instruction	4,071,383	-	4,071,383	3,361,500	4,500,000	428,617
Support services	1,568,844	2	1,568,846	1,997,400	1,997,400	428,554
Non-instructional programs	2,372	241,543	243,915	1,400	242,372	(1,543)
Other expenditures	1,537,183	-	1,537,183	1,275,605	1,667,692	130,509
Total expenditures/expenses	7,179,782	241,545	7,421,327	6,635,905	8,407,464	986,137
Excess (deficiency) of revenues over (under) expenditures/expenses	(686,874)	1,417	(685,457)	(640,823)	(2,412,382)	1,726,925
Other financing sources, net	144,675	-	144,675	-	-	144,675
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(542,199)	1,417	(540,782)	(640,823)	(2,412,382)	1,871,600
Balances beginning of year	2,926,867	17,933	2,944,800	2,616,288	2,616,288	328,512
Balances end of year	\$ 2,384,668	19,350	2,404,018	1,975,465	203,906	2,200,112

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$ 1,771,559.

During the year ended June 30, 2014, expenditures in the non-instructional programs functions exceeded the amounts budgeted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAA) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAA as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	262	262	0.0%	\$ 2,476	10.6%
2011	July 1, 2009	-	266	266	0.0	2,854	9.3
2012	July 1, 2009	-	266	266	0.0	2,739	9.7
2013	July 1, 2012	-	320	320	0.0	2,631	12.1
2014	July 1, 2012	-	304	304	0.0	2,329	13.1

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
ASSETS				
Cash and pooled investments	\$ 64,793	40,606	-	105,399
Receivables:				
Property tax:				
Delinquent	1,722	-	-	1,722
Succeeding year	230,000	-	-	230,000
Accounts	-	14	-	14
Due from other governments	-	1,636	-	1,636
TOTAL ASSETS	\$ 296,515	42,256	-	338,771
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	1,835	-	1,835
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	230,000	-	-	230,000
Fund balances:				
Restricted for:				
Management levy purposes	66,515	-	-	66,515
Student activities	-	40,421	-	40,421
Total fund balances	66,515	40,421	-	106,936
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 296,515	42,256	-	338,771

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2014

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
Revenues:				
Local sources:				
Local tax	\$ 87,325	-	-	87,325
Other	3,894	34,700	-	38,594
State sources	61	-	-	61
Total revenues	91,280	34,700	-	125,980
Expenditures:				
Current:				
Instruction:				
Regular	77,085	-	-	77,085
Other	-	78,848	-	78,848
Support services:				
Student	1,412	-	-	1,412
Instructional staff	1,937	-	-	1,937
Administration	39,960	-	-	39,960
Plant operation and maintenance	34,038	-	-	34,038
Transportation	10,105	-	-	10,105
Non-instructional programs	1,372	-	-	1,372
Other expenditures:				
Long-term debt:				
Principal	-	-	702,707	702,707
Interest and fiscal charges	-	-	2,522	2,522
Total expenditures	165,909	78,848	705,229	949,986
Deficiency of revenues under expenditures	(74,629)	(44,148)	(705,229)	(824,006)
Other financing sources:				
Operating transfers in	-	-	597,722	597,722
Change in fund balances	(74,629)	(44,148)	(107,507)	(226,284)
Fund balances beginning of year	141,144	84,569	107,507	333,220
Fund balances end of year	\$ 66,515	40,421	-	106,936

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2014

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Interest	\$ 4,623	276	213	(276)	4,410
Drama	2,525	843	626	-	2,742
Junior High Drama	16,539	300	1,736	(15,103)	-
Vocal Music	2,907	2,014	1,945	(241)	2,735
Instrumental Music	104	-	12,091	16,778	4,791
Band Carnival	240	26	18,301	21,176	3,141
Band Uniforms	125	125	8,580	(8,818)	-
Music Fundraisers	17,273	2,014	5,870	3,856	-
Junior High Athletics	457	-	-	(457)	-
Football Cheerleaders	1,114	-	-	(1,114)	-
Drill Team	445	-	-	(445)	-
Wrestling Cheerleaders	3,324	-	78	(145)	3,101
Girls' Track Fundraiser	283	-	68	(215)	-
Boys' Track Fundraiser	2,175	-	-	-	2,175
Cross Country Fundraiser	911	-	9	-	902
Golf Fundraiser	1,357	-	-	-	1,357
Boys' Basketball Fundraiser	7,097	-	5,374	-	1,723
Football Fundraiser	598	1,764	230	-	2,132
Baseball Fundraiser	497	-	253	-	244
Wrestling Fundraiser	605	-	-	-	605
Girls' Basketball Fundraiser	939	-	-	-	401
Volleyball Fundraiser	1,843	-	538	(1,843)	-
Softball Fundraiser	24	13,258	1,260	(9,451)	2,571
General Athletics	3,161	519	228	-	3,452
Student O	7,585	7,672	14,471	-	786
FPA	-	-	204	204	-
Student Council	1,720	5,064	4,609	-	2,175
Junior High Student Council	310	825	-	(1,135)	-
Yearbook	983	-	328	(655)	-
Class of 2013	2,739	-	623	(2,116)	-
Class of 2014	978	-	-	-	978
Class of 2015	457	-	457	-	-
Class of 2016	232	-	232	-	-
Class of 2017	364	-	364	-	-
Class of 2018	160	-	160	-	-
Class of 2019	-	-	-	-	-
TOTAL	\$ 84,569	34,700	78,848	-	40,421

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 June 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash, cash equivalents and pooled investments	\$ 897,319	160,661	1,057,980
Receivables:			
Property tax:			
Delinquent	-	1,847	1,847
Succeeding year	-	93,315	93,315
Due from other funds	38,216	6,274	44,490
Due from other governments	133,066	56,388	189,454
TOTAL ASSETS	<u>\$ 1,068,601</u>	<u>318,485</u>	<u>1,387,086</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,063	3,792	5,855
Deferred inflow of resources:			
Unavailable revenues:			
Succeeding year property tax	-	93,315	93,315
Income tax surtax receivable	-	56,388	56,388
Total deferred inflows of resources	<u>-</u>	<u>149,703</u>	<u>149,703</u>
Fund balances:			
Restricted for:			
Debt service	436,749	-	436,749
School infrastructure	629,789	-	629,789
Physical plant and equipment	-	164,990	164,990
Total fund balances	<u>1,066,538</u>	<u>164,990</u>	<u>1,231,528</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,068,601</u>	<u>318,485</u>	<u>1,387,086</u>

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 Year Ended June 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 360,920	118,770	479,690
Other	11,598	496	12,094
State sources	35,548	67	35,615
Federal sources	266,606	-	266,606
Total revenues	674,672	119,333	794,005
Expenditures:			
Current:			
Instruction:			
Regular	134,204	3,357	137,561
Support services:			
Plant operation and maintenance	17,054	56,213	73,267
Transportation	-	81,529	81,529
Other expenditures:			
Facilities acquisition	648,993	-	648,993
Long-term debt, fiscal charges	-	10	10
Total expenditures	800,251	141,109	941,360
Deficiency of revenues under expenditures	(125,579)	(21,776)	(147,355)
Other financing sources (uses):			
Capital lease proceeds	144,675	-	144,675
Operating transfers out	(257,707)	(340,015)	(597,722)
Total other financing sources (uses)	(113,032)	(340,015)	(453,047)
Change in fund balances	(238,611)	(361,791)	(600,402)
Fund balances beginning of year	1,305,149	526,781	1,831,930
Fund balances end of year	\$ 1,066,538	164,990	1,231,528

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2014

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash	\$ -	56,473	56,227	246
Due from other governments	33,469	-	33,469	-
TOTAL ASSETS	<u>\$ 33,469</u>	<u>56,473</u>	<u>89,696</u>	<u>246</u>
LIABILITIES				
Accounts payable	\$ 16,393	56,473	72,650	246
Due to other funds	17,076	-	17,076	-
TOTAL LIABILITIES	<u>\$ 33,469</u>	<u>56,473</u>	<u>89,726</u>	<u>246</u>

See accompanying independent auditor's report.

Schedule 7

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Ten Years

	Modified Accrual Basis									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 2,129,007	2,418,199	2,117,779	1,782,495	1,909,933	1,894,099	1,906,664	1,775,571	1,778,963	1,766,838
Tuition	989,807	185,326	160,107	209,449	138,133	91,017	113,533	106,734	85,134	80,288
Other	396,081	323,332	365,583	403,740	373,340	349,125	296,143	263,299	329,152	296,600
Intermediate sources	2,523,055	2,551,252	2,502,761	2,562,210	2,246,320	2,640,325	2,783,929	2,624,274	2,533,585	2,387,749
State sources	454,958	371,697	297,125	348,221	566,788	280,828	209,152	197,139	225,582	419,049
Federal sources										
Total	\$ 6,492,908	5,849,806	5,443,355	5,306,115	5,224,494	5,253,394	5,309,421	4,973,477	4,952,416	4,950,524
Expenditures:										
Instruction:										
Regular	\$ 2,722,331	1,972,437	2,204,464	1,991,802	2,252,887	1,843,788	1,896,250	1,804,343	1,658,069	1,617,642
Special	1,188,284	814,368	963,387	1,157,964	1,001,149	874,493	851,606	885,510	889,263	764,552
Other	162,768	422,911	318,826	296,422	346,875	278,325	274,651	264,223	306,623	368,660
Support services:										
Student	120,215	127,182	125,589	138,701	191,771	181,668	152,853	108,143	106,469	109,244
Instructional staff	264,034	265,252	171,491	240,901	228,485	163,025	145,670	143,392	146,601	110,504
Administration	461,108	453,590	580,452	611,361	559,277	522,636	491,057	512,477	537,970	520,321
Plant operation and maintenance	465,142	402,333	499,291	448,853	530,620	731,418	387,980	363,446	458,363	367,752
Transportation	238,345	189,393	171,692	206,585	341,598	226,657	216,711	208,027	156,996	212,092
Central support	-	-	-	-	-	-	-	-	-	1,813
Non-instructional programs	2,372	3,054	2,968	2,547	1,563	793	1,458	1,318	2,712	750
Other expenditures:										
Facilities acquisition	648,993	238,338	37,455	34,762	551,525	81,255	35,575	112,109	43,597	591,851
Long-term debt:										
Principal	702,707	164,652	156,095	165,999	177,519	104,686	221,671	220,000	220,000	215,000
Interest and other charges	2,532	10,879	18,436	26,127	20,136	22,371	30,333	37,954	46,747	54,828
AEA flowthrough	182,951	179,488	179,347	203,209	201,734	186,928	186,469	177,469	172,207	169,150
Total	\$ 7,179,782	5,243,877	5,429,493	5,525,233	6,415,199	5,218,053	4,892,284	4,838,411	4,745,617	5,104,159

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	FY 14	\$ 17,802
National School Lunch Program	10.555	FY 14	102,753*
			<u>120,555</u>
National Endowment for the Humanities:			
Iowa Department of Education:			
Promotion of the Arts	45.025	FY 14	<u>200</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local			
Education Agencies	84.010	FY 14	<u>81,482</u>
Rural Education Achievement			
Program	84.358a	FY 14	<u>30,922</u>
Improving Teacher Quality			
State Grants	84.367	FY 14	<u>17,474</u>
Grant for State Assessment and			
Related Activities (Title VIA)	84.369	FY 14	<u>2,282</u>
Keystone Area Education Agency:			
Special Education-Grants to			
States	84.027	FY 14	<u>18,636</u>
U.S. Department of Homeland Security:			
Federal Emergency Management Agency:			
Iowa Department of Homeland Security			
and Emergency Management Division:			
Hazard Mitigation Program	97.039	HMGP DR-1930- 0019-01	<u>266,607</u>
Total			<u>\$ 538,158</u>

* Includes \$ 21,574 of non-cash awards.

Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Valley Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Valley Community School District

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Valley Community School District as of and for the year ended June 30, 2014, and the related Notes to Financial Statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Valley Community School District's Responses to the Findings

Valley Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Valley Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.


Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 17, 2014


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

STEVEN S. CLAUSEN, CPA

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR 1-133**

To the Board of Education of
Valley Community School District:

Report on Compliance for Each Major Federal Program

We have audited Valley Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Valley Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Valley Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Valley Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Valley Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Valley Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Valley Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Community School District's internal control over compliance.

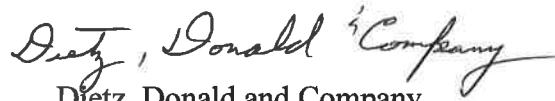
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Elkader, Iowa

December 17, 2014

A handwritten signature in cursive script that reads "Dietz, Donald & Company".

Dietz, Donald and Company
Certified Public Accountants
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- a) Unmodified opinions were issued on the financial statements.
- b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) No material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major programs were as follows:

Child Nutrition Cluster

CFDA Number 10.553 - School Breakfast Program

CFDA Number 10.555 - National School Lunch Program

CFDA Number 97.039 - Hazard Mitigation Program

- h) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- i) Valley Community School District did not qualify as a low risk auditee.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

No material weaknesses were identified.

Part IV: Other Findings Related to Statutory Reporting

IV-A-14 Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the certified budget amounts in the non-instructional programs function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the budget is not exceeded.

Conclusion - Response accepted.

IV-B-14 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

- IV-C-1 Travel Expense -No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-14 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-14 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-H-14 Supplementary Weighting - A variance regarding the supplementary weighting certified to the Iowa Department of Revenue was noted.

Recommendation - The District should take care that the certified supplementary weighting is accurate. We will contact the Department of Management and the Department of Education notifying them of the difference.

Response - The District received notice after October 1 of possible additional weighting for operational sharing adjustments. We will be aware of these adjustments in the future.

Conclusion - Response accepted.

- IV-I-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12 C of the Code of Iowa and the District's investment policy were noted.
- IV-J-14 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

- IV-K-14 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.
- IV-L-14 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain elements related to the statewide sales, services, and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 1,305,149	
Revenues:			
Sales tax revenues	\$ 360,920		
Other local revenues	11,598		
State sources	35,548		
Federal sources	266,606		
Capital lease proceeds	<u>144,675</u>	<u>819,347</u>	
		2,124,496	
Expenditures/transfers out:			
Equipment	\$ 151,258		
Facilities acquisition	648,993		
Transfers to debt service fund	<u>257,707</u>	<u>1,057,958</u>	
Ending balance		<u>\$ 1,066,538</u>	

For the year ended June 30, 2014, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

- IV-M-14 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.